REPORT ON THE STATE POOLED INVESTMENT FUND

For The Fiscal Year Ended June 30, 2007

PREPARED FOR THE

STATE FUNDING BOARD

December 14, 2007

PREPARED BY
TREASURY DEPARTMENT
CASH MANAGEMENT DIVISION

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CHARTS AND TABLES

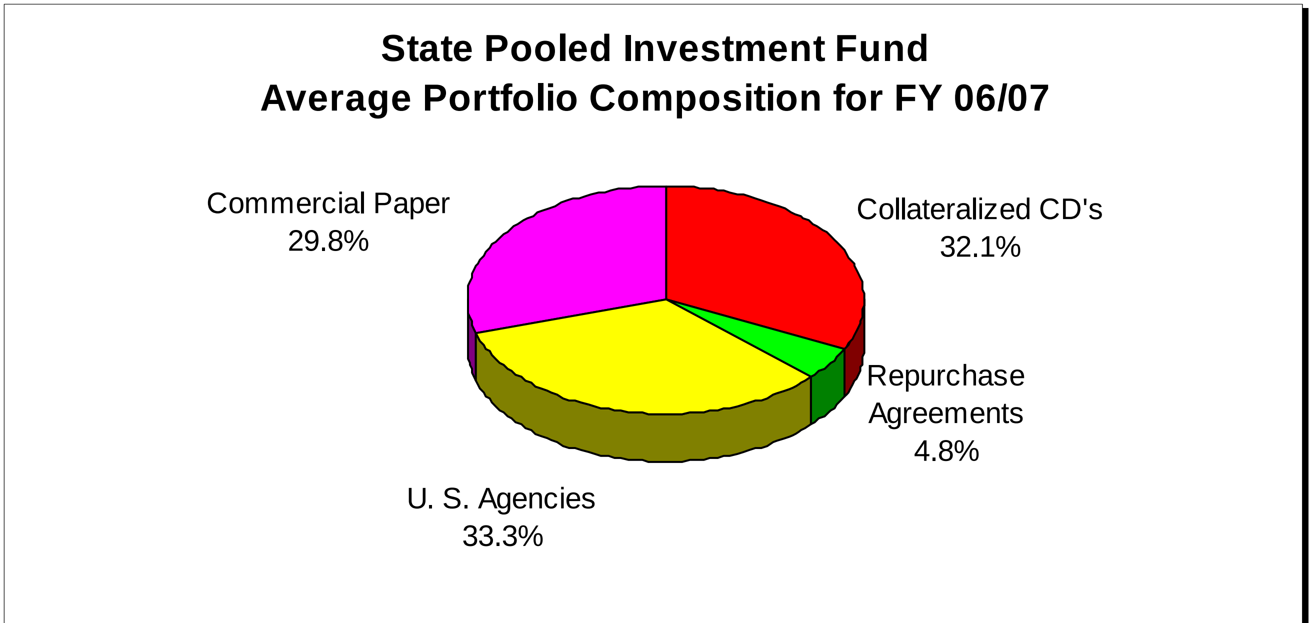
TENNESSEE TREASURY DEPARTMENT
State Pooled Investment Fund Report
For the fiscal year ended June 30, 2007

I. COMPLIANCE WITH INVESTMENT POLICY

The investment policy for the State Pooled Investment Fund is set by the State Funding Board. The board is composed of the Governor, Commissioner of Finance and Administration, Comptroller, Secretary of State, and Treasurer. The investment objective for the state pooled investment fund is to obtain the highest available return on investments consistent with the preservation of principal, while maintaining sufficient liquidity for state expenditures and other withdrawals from the state pooled investment fund.

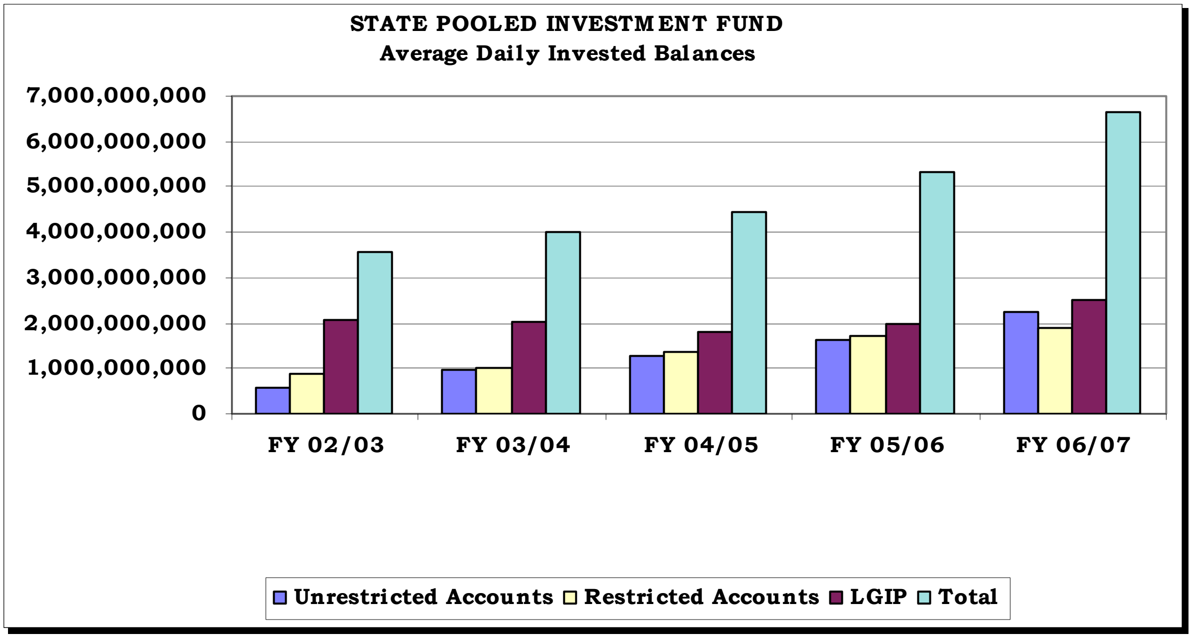
Portfolio Composition

The State Pooled Investment Fund had a monthly average of $ 6.66 billion invested for the fiscal year ended June 30, 2007. The following chart shows the composition of the average portfolio.



Notice in the graph that the average invested in commercial paper during the year was 29.8% of the SPIF which is within the policy limitation (total of 40% of the SPIF, 35% up to 180 days and 5% overnight). The investment policy provides for investment in collateralized certificates of deposit as a priority over other investments to the extent in-state financial institutions want the CD's at the state's assigned rate. U. S. Agency securities are acquired instead of Treasuries when the yield spread makes them more attractive to own.

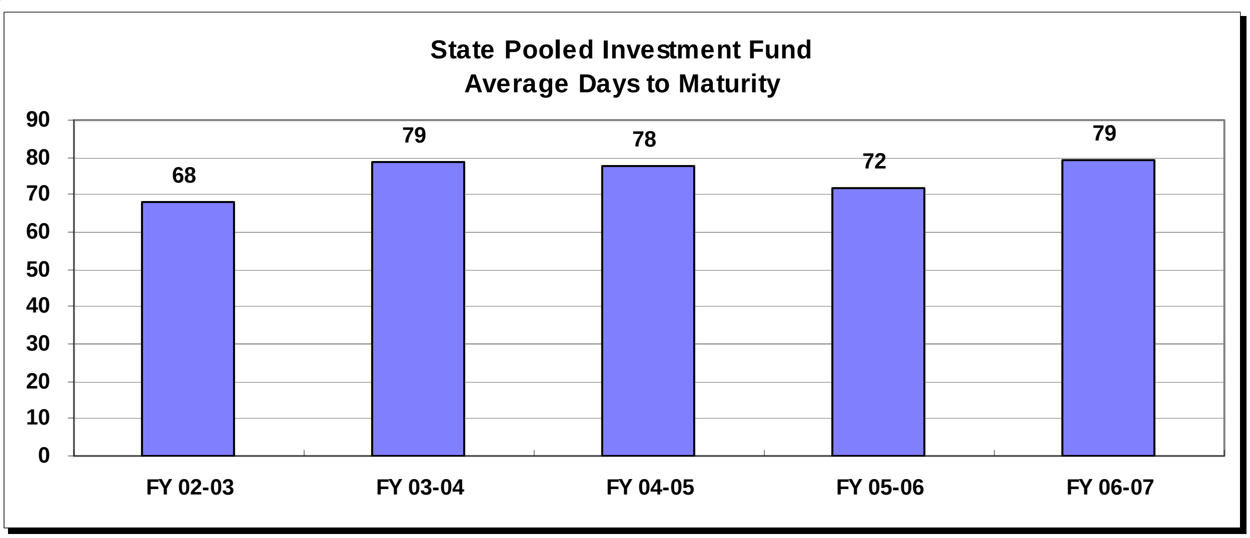
The following chart shows the average monthly balances in the state pooled investment fund for the last five years. At 6/30/07, the LGIP balance comprised 34.5% of the state pooled investment fund. The actual balance of funds available to invest on behalf of the General fund (Unrestricted Accounts) increased $572.8 million (34.7%) from $1.65 billion for 05/06 to $2.22 billion for 06/07 (see following chart).



Liquidity

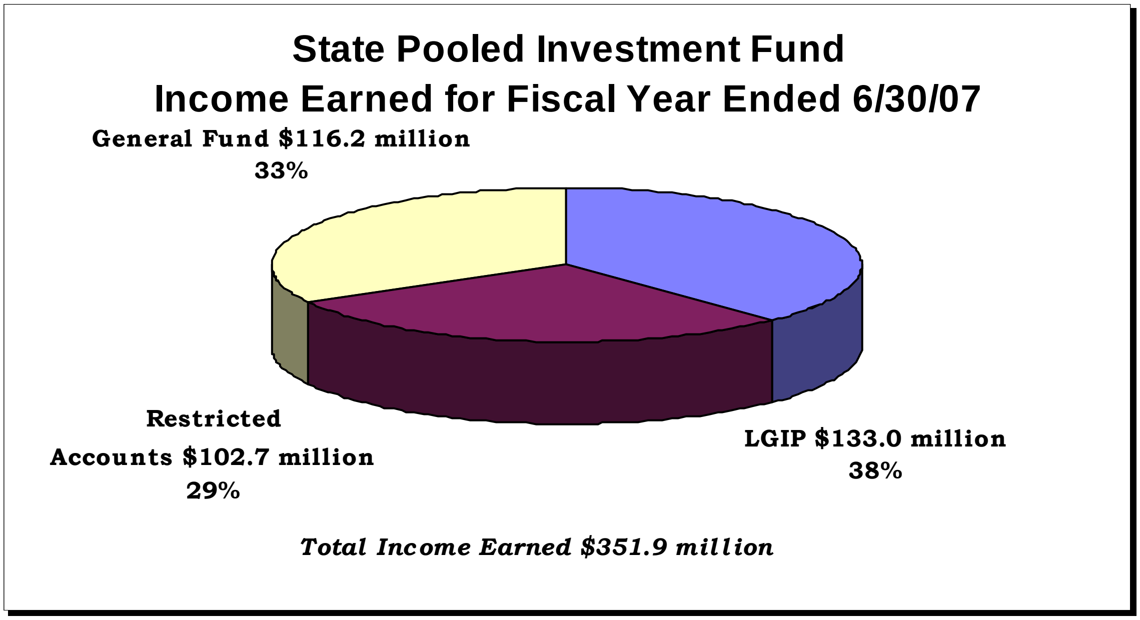
The Governmental Accounting Standards Board (GASB) issued a statement on “Accounting and Financial Reporting for Certain Investments and for External Investment Pools” (GASB Statement 31) which impacted the investment policy for the State Pooled Investment Fund (SPIF). The SPIF is operated in a manner consistent with the Security and Exchange Commission’s Rule 2a7 of the Investment Company Act of 1940. This rule requires a dollar weighted average portfolio maturity of 90 days or less and a maximum maturity of any single investment of 397 days or less.

The following chart shows the dollar weighted average maturity of the SPIF over the past five years.

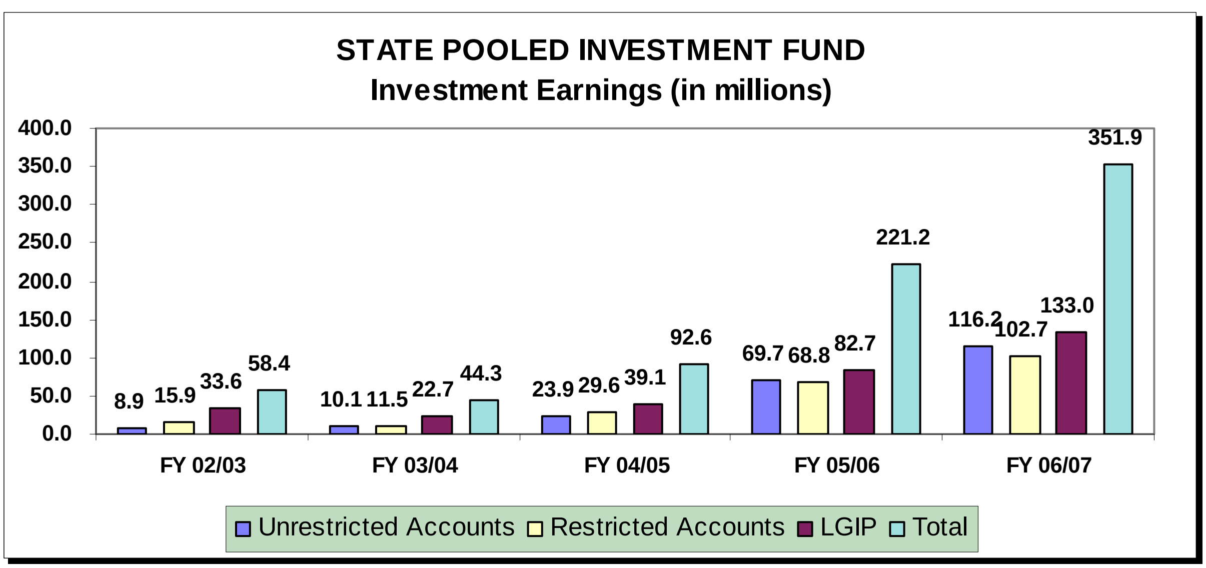


II. PORTFOLIO PERFORMANCE

Income earned on the portfolio during the fiscal year ended June 30, 2007 totaled $351.9 million. The distribution of earnings as shown on the following pie chart was $116.2 million to the General fund; $133.0 million to the LGIP; and, $102.7 million to other Restricted accounts (accounts specified by statute, court order or regulation to receive interest earnings on their balances). Examples include the funds of TWRA, the Risk Management Fund, and the Group Insurance Fund.



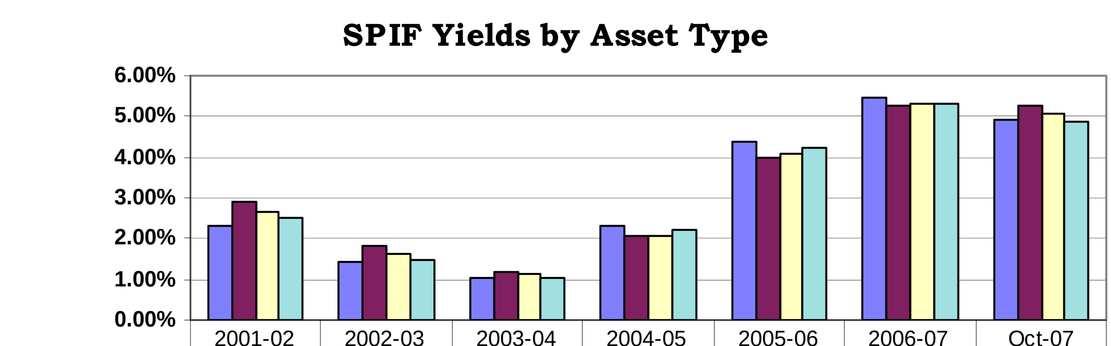
The monies in the SPIF represent the liquid working capital available to the State of Tennessee to cover expenditures until additional revenues are collected. Earnings of the state pooled investment fund for the last five years are shown in the following chart.



The fed funds target rate at 7/1/06 was 5.25% reflecting the last of 17 straight 25 basis point increases since 6/30/04 when the FOMC began tightening rates. The following chart gives a history of the FOMC actions including the more recent results of open market committee meetings where the fed funds target rate has been decreased to its current level of 4.50%.

FOMC Announcement Date	Fed Funds Target Rate	Direction	Amount of Change	Primary Credit Rate	Economic Assessment
01/31/2006	4.50%	Tightening	0.25%	7.50%	Balanced
03/28/2006	4.75%	Tightening	0.25%	7.75%	Balanced
05/10/2006	5.00%	Tightening	0.25%	8.00%	Inflation Risk
06/29/2006	5.25%	None	None	8.25%	Inflation Risk
08/08/2006	5.25%	None	None	8.25%	Inflation Risk
09/20/2006	5.25%	None	None	8.25%	Inflation Risk
10/25/2006	5.25%	None	None	8.25%	Inflation Risk
12/12/2006	5.25%	None	None	8.25%	Inflation Risk
01/31/2007	5.25%	None	None	8.25%	Inflation Risk
03/21/2007	5.25%	None	None	8.25%	Inflation Risk
05/09/2007	5.25%	None	None	8.25%	Inflation Risk
06/28/2007	5.25%	None	None	8.25%	Inflation Risk
08/07/2007	5.25%	None	None	8.25%	Inflation Risk
09/18/2007	4.75%	Ease	0.50%	7.75%	Growth Risk
10/31/2007	4.50%	Ease	0.25%	7.50%	Balanced

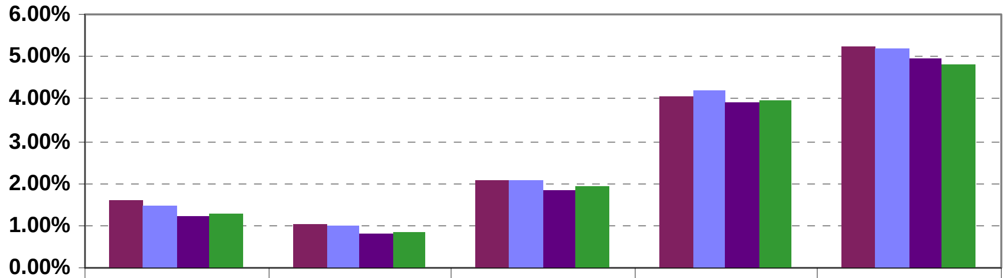
The following chart contains the average yields earned by asset type within the SPIF for the last five years and for the month of October 2007.



	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	Oct-07
Repos	2.33%	1.45%	1.05%	2.33%	4.37%	5.45%	4.94%
Govt & Agency	2.88%	1.83%	1.18%	2.05%	3.99%	5.26%	5.26%
CDs	2.65%	1.64%	1.11%	2.08%	4.09%	5.30%	5.05%
CP	2.48%	1.48%	1.02%	2.22%	4.24%	5.33%	4.89%

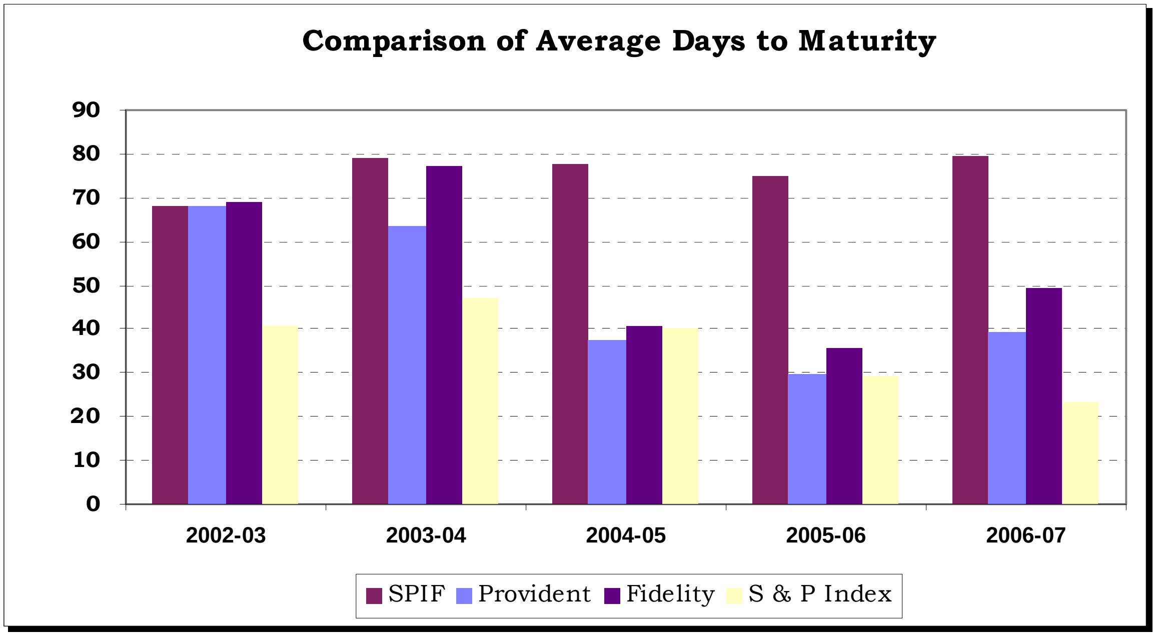
The State Pooled Investment Fund is actively managed within the Treasury Department. Standard and Poor's provides a rating service for LGIP funds and calculates an index return for the rated funds. The following chart compares the average yield of the SPIF (net of administrative fee) to that index and also to the net yield of two money market funds governed by SEC Rule 2a7; Provident Institutional Temp Fund and Fidelity Cash Reserves Fund.

Comparison of Yields Net of Fees



	2002-03	2003-04	2004-05	2005-06	2006-07
SPIF	1.59%	1.06%	2.07%	4.06%	5.25%
Provident	1.45%	0.98%	2.08%	4.19%	5.21%
Fidelity	1.23%	0.78%	1.83%	3.93%	4.97%
S & P Index	1.29%	0.84%	1.93%	3.97%	4.84%

The following chart indicates how the average days to maturity of the State Pooled Investment Fund compares to the average maturity of the Standard and Poor's rated funds index, the Provident Institutional Temp Fund and Fidelity Cash Reserves Fund.



III. INVESTMENT POLICY REVIEW

We have reviewed the current investment policy and do not have any recommended changes.

IV. INVESTMENT PLAN

At the 10/31/07 FOMC meeting, the fed funds target rate was lowered to 4.50%, representing a drop of 25 basis points sinc the meeting on September 18, 2007. The statement released by the Federal Reserve Board after the 10/31/07 meeting states, "Economic growth was strong in the third quarter, however the pace of economic expansion will likely slow in the near term…Recent increases in energy and commodity prices, among other factors, may put renewed upward pressure on inflation." Looking forward, the majority of economists reporting to Bloomberg forecast the Fed Funds rate will be 3.75% by late Spring of 2008. We will continue to maintain a diversified portfolio of CDs, repos, US Government obligations, and commercial paper . The asset mix and average maturity of the portfolio will be managed taking into consideration the yield curve, actions taken by the Federal Reserve Bank, and other market conditions.

V. COST OF ADMINISTRATION

The cost to operate the SPIF was $2.62 million for the year ended June 30, 2007. The costs of operations are funded from a 5 basis point charge for assets invested. Most money market funds charge substantially more than 5 basis points. Also, the costs of operations include more than investment management. The 5 basis points also finances:

- Investment of portfolio
- Maintenance of collateral
- Collateral pool administration
- Cash concentration
- Bank reconciliations and resolution of reconciling items
- LGIP program
- Warrant reconciliation
- Accounting and recordkeeping
- Support cost such as internal audit, payroll, personnel, etc.

VI. LARGEST HOLDINGS AT JUNE 30, 2007 BY CATEGORY

Treasuries and Agencies

1. FHLB	$1,341,520,000
2. FHLMC	735,167,000
3. FNMA	402,963,000
4. FFCB	108,202,000

Commercial Paper

1. General Electric	$375,000,000
2. HSBC	375,000,000
3. Citigroup	350,000,000
4. ADP	275,000,000

Bank CD's

1. 1st Tennessee	$410,000,000
2. Bank of America	400,000,000
3. B B & T	395,000,000
4. AmSouth	300,000,000